

December 2009

Preliminary HECB 2011-13 Budget Guidelines and Fiscal Priorities

I. Purpose of the Budget Guidelines

The Higher Education Coordinating Board (HECB) is required by statute (RCW 28B.80. 330(4)) to “review, evaluate and make recommendations” on the operating and capital budget requests of the public colleges and universities.

The Board’s budget recommendations are to be based on:

- The role and mission of the public institutions;
- The state’s higher education goals, objectives, and priorities as identified in the strategic master plan for higher education; and
- Guidelines that describe the Board’s **fiscal priorities**.

The Board’s fiscal priorities contained in the guidelines are, therefore, central to establishing the linkage between system goals and needs and the state budgeting process.

Through this alignment of state-level higher education goals with biennial budgetary priorities, the HECB budget recommendations are intended to provide the Governor and Legislature with a system perspective to higher education operating and capital needs.

II. Policy and Fiscal Context of the Board’s 2011-13 Fiscal Priorities

Policy Framework

The Board’s *2008 Strategic Master Plan for Higher Education*, adopted by the Legislature in 2009 as state higher education policy, is the policy framework for the Board’s 2011-13 budget guidelines and fiscal priorities. This plan and state policy calls for significantly increasing the postsecondary degree attainment level of Washington citizens over the next several years¹.

¹ See www.hecb.wa.gov/research/masterplans/masterplansindex.asp.

In developing the plan's degree attainment goals, a thorough analysis of changing state demographics and regional needs was conducted. This analysis found that, in order to reach the state's degree enrollment goals, increased enrollment from historically underrepresented groups, primarily those from lower-income families, will be needed as well as in regions of the state that are under-served.

As a strategy to achieve the increased participation of lower-income youth and older working adults, the Board initiated a "system design plan." The goal of the system design plan was to prepare a "blueprint" for those systemic changes that would be needed to reach the state policy higher education degree attainment goals.

Underlying the system design plan was a key planning principle. Specifically, that rules for growth were needed to ensure that higher education resources were optimally aligned to achieve state policy goals. Embedded in this principle was recognition that the old paradigm of creating capacity and assuming demand would follow was no longer relevant. Due to new demographic realities, fostering demand among historically under-served groups was now the imperative. Further, significant investments in capacity would follow demonstrable potential for rapid expansion, resulting in a principle of "expand on (demonstrated) demand."

Fiscal Context and Outlook for 2011-13

At its September 2009 meeting, the Board was briefed on the September 2009 Economic Forecast by Arun Raha, the Executive Director of the Washington State Economic Forecast Council. From this briefing and additional information provided by the Office of Financial Management, we know that:

1. There are strong indications that the worst economic recession in recent times is now "bottoming out." While the economy may be on the path to recovery, consumer spending remains slow. That means jobs and our tax revenue will lag behind overall growth. At the same time, the demand for the important services we provide is growing.
2. Due to the depth and nature of the recession, recovery will take time – perhaps two to three years – and is expected to be a "jobless recovery" with employment recovering at a slower pace than the general economy. Consumer spending also is expected to lag significantly as compared to the overall economic recovery.
3. As consumer spending is the key component in state revenue, state revenue recovery will lag the overall economic recovery. By FY 2011, state general fund growth is forecasted to be less than general fund revenues in both FY 2007 and FY 2008.
4. Further reductions in earlier general fund revenue forecasts for fiscal year 2010 will require additional 2009-11 general fund budget reductions.

In summary, credible recommendations to the Governor and Legislature must, therefore, recognize and balance the aspirations of the goals of state higher education policy with the reality of current and near-term economic circumstances. Simply put, this means that we need to serve more students but with fewer resources. Accordingly, the Board has adopted the following fiscal priorities for the 2011-13 biennium.

III. 2011-13 Operating Budget Priorities

Given the state's fiscal realities and the importance of addressing the policy goals of the strategic master plan, unique operating budget fiscal priorities are required for the 2011-13 biennium. Specifically, the Board believes that a limited number of focused priorities should be considered by the institutions in developing their operating budget requests.

These priorities are:

1. Funding for limited and focused enrollment increases where such increases can be shown to be needed for existing unfunded enrollment demand. The Board encourages the institutions to consider cost-savings strategies to address such needs, particularly the use of innovative delivery methods where lower instructional costs can be obtained.
2. Funding to support the institutions' public service role for specific actions to promote student preparation, particularly students from lower-income families and under-represented groups.
3. Funding to restore instructional program quality impacted from budget reductions when the institution can demonstrate that institutional reprioritization of direct and indirect costs was (a) undertaken, and (b) insufficient to offset all instructional program reductions.

When developing operating funding requests for these priorities, the Board strongly encourages the institutions to, when possible, compliment the requested state funding with local "matching" funds available from the reprioritization of existing state funds or through non-state resources.

IV. 2011-13 Capital Budget Priorities

The economic recession also reduces the state's capital budget capacity. Specifically, both the state constitution and permanent law limit the amount of debt service that the state can pay on general obligations bonds. The limitation is calculated as a percentage of the average prior three years' general fund revenue.

For the 2011-13 biennium, the calculation will be based on general fund revenues in FY 2009, FY 2010, and FY 2011. Thus, the decline in general fund revenues in these years due to the recession will limit the amount of bonds the state can sell in the 2011-13 biennium. For higher education, this is very significant because, historically, about 75 percent of higher education's capital budgets have been funded by general obligation bonds.

Accordingly, the Board's 2011-13 capital budget priorities are limited to the following three "core" capital investment needs.

The **first priority** is (a) to maintain academic quality through the preservation of physically deteriorated facilities and infrastructure, and (b) the modernization of facilities that are programmatically deficient.

The **second priority** is to support the master plan policy of “growth on demand,” by supporting access-related projects which align to the findings and near-term recommendations of the system design plan.

The **third priority** is to support economic growth and innovation through projects that provide for expanded research activity and graduate education in high-demand fields. The acquisition and installation of specialized equipment is authorized under this category.

When developing capital funding requests for these priorities, the Board strongly encourages the institutions to, when possible, compliment the requested state funding with local “matching” funds available from the reprioritization of existing state funds or through non-state resources.

V. 2011-13 Budget Request Schedule and Required Information

As required in RCW 28B.76.210:

1. The institutions and the State Board for Community and Technical Colleges shall **submit an outline of their proposed operating budgets to the Board no later than July 1 of each even-numbered year**. Pursuant to guidelines developed by the Board, operating budget outlines submitted by the institutions and the State Board for Community and Technical Colleges after January 1, 2007, shall include all policy changes and enhancements that will be requested by the institutions and the State Board for Community and Technical Colleges in their respective biennial budget requests. Operating budget outlines shall include a description of each policy enhancement, the dollar amount requested, and the fund source being requested.
2. **Capital budget outlines for the two-year institutions shall be submitted by August 15 of each even-numbered year**, and shall include the prioritized ranking of the capital projects being requested, a description of each capital project, and the amount and fund source being requested.
3. **Capital budget outlines for the four-year institutions must be submitted by August 15 of each even-numbered year**, and must include: the institution’s priority ranking of the project, the capital budget category within which the project will be submitted to the Office of Financial Management in accordance with RCW 43.88D.010, a description of each capital project, and the amount and fund source being requested.

In addition, consistent with the recommendations in the Board’s December 2009 Tuition Policy Study, institutions will also submit differentiated tuition rates with institutional budget requests.

Public four-year institutions will propose differentiated tuition rates for their respective campuses, by role and mission and the cost of instruction at each campus for HECB consideration as part of the biennial budget cycle.

The Board will include recommendations on resident undergraduate tuition in its budget recommendations to the Legislature and Governor. Tuition rates and revenue derived from tuition will be evaluated according to criteria that include meeting degree attainment goals in the Strategic Master Plan and increasing participation from underrepresented populations. Institution budget requests should also be reflected in performance agreements that include performance and accountability measures for achieving state strategic goals.

RESOLUTION NO. 09-37

WHEREAS, The Higher Education Coordinating Board is required by statute (RCW 28B.76.210) to review, evaluate, and make recommendations on the operating and capital budget requests of the public four-year college and universities, and the community and technical college system; and

WHEREAS, These recommendations are to be based on the Board's biennial budget fiscal priorities as derived from the Strategic Master Plan for Higher Education; and

WHEREAS, The Higher Education Coordinating Board also is required by statute to distribute budget guidelines, which outline the Board's fiscal priorities, by December of each odd-numbered year; and

WHEREAS, Preliminary HECB budget guidelines for the 2011-13 biennium have been prepared and distributed for review and comment by the public universities and colleges; and

WHEREAS, The Board's Fiscal Committee has reviewed the preliminary guidelines and recommends that the Board adopt the preliminary guidelines for the 2011-13 biennium;

THEREFORE, BE IT RESOLVED, That the Higher Education Coordinating Board approves the 2011-13 preliminary budget guidelines and fiscal priorities.

Adopted:

December 15, 2009

Attest:

Jesus Hernandez, Chair

Roberta Greene, Secretary